## CAPITAL AND EXPLORATION EXPENDITURES

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | U.S. | Non-U.S. | U.S. | Non-U.S. |
| | *(millions of dollars)* | | | |
| Upstream *(1)* | $3,334 | $16,400 | $2,212 | $13,512 |
| Downstream | 1,636 | 1,893 | 1,128 | 2,175 |
| Chemical | 441 | 2,378 | 360 | 1,422 |
| Other | 61 | — | 44 | — |
| Total | $5,472 | $20,671 | $3,744 | $17,109 |

*(1) Exploration expenses included.*

Capital and exploration expenditures in 2008 were $26.1 billion, reflecting the Corporation's continued active investment program. The Corporation expects annual expenditures to range from $25 billion to $30 billion for the next several years. Actual spending could vary depending on the progress of individual projects.

Upstream spending of $19.7 billion in 2008 was up 26 percent from 2007, mainly due to increased project and exploration expenditures. During the past three years, Upstream capital and exploration expenditures averaged $17.2 billion. The majority of these expenditures are on development projects, which typically take two to four years from the time of recording proved undeveloped reserves to the start of production from those reserves. The percentage of proved developed reserves has remained relatively stable over the past five years at over 60 percent of total proved reserves, indicating that proved reserves are consistently moved from undeveloped to developed status. Capital and exploration expenditures are not tracked by the undeveloped and developed proved reserve categories. Capital investments in the

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Downstream totaled $3.5 billion in 2008, an increase of $0.2 billion from 2007, due to higher environmental expenditures. Chemical 2008 capital expenditures of $2.8 billion were up $1.0 billion from 2007 due to increased investment in Asia Pacific to meet demand growth.

### TAXES

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| | | (millions of dollars) | |
| Income taxes | $ 36,530 | $ 29,864 | $ 27,902 |
| Sales-based taxes | 34,508 | 31,728 | 30,381 |
| All other taxes and duties | 45,223 | 44,091 | 42,393 |
| Total | $116,261 | $105,683 | $100,676 |
| Effective income tax rate | 47% | 44% | 43% |

**2008**

Income, sales-based and all other taxes totaled $116.3 billion in 2008, an increase of $10.6 billion or 10 percent from 2007. Income tax expense, both current and deferred, was $36.5 billion, $6.7 billion higher than 2007, reflecting higher pre-tax income in 2008. A higher share of total income from the non-U.S. Upstream segment in 2008 increased the effective tax rate to 47 percent compared to 44 percent in 2007. Sales-based and all other taxes and duties of $79.7 billion in 2008 increased $3.9 billion from 2007, reflecting higher prices.

**2007**

Income, sales-based and all other taxes totaled $105.7 billion in 2007, an increase of $5.0 billion or 5 percent from 2006. Income tax expense, both current and deferred, was $29.9 billion, $2.0 billion higher than 2006, reflecting higher pre-tax income in 2007. The effective tax rate was 44 percent in 2007, compared to 43 percent in 2006. Sales-based and all other taxes and duties of $75.8 billion in 2007 increased $3.0 billion from 2006, reflecting higher prices.

### ENVIRONMENTAL MATTERS

**Environmental Expenditures**

| | 2008 | 2007 |
|---|---|---|
| | (millions of dollars) | |
| Capital expenditures | $ 2,485 | $ 1,525 |
| Other expenditures | 2,730 | 2,272 |
| Total | $ 5,215 | $ 3,797 |

Throughout ExxonMobil's businesses, new and ongoing measures are taken to prevent and minimize the impact of our operations on air, water and ground. These include a significant investment in refining infrastructure and technology to manufacture clean fuels as well as projects to reduce nitrogen oxide and sulfur oxide emissions and expenditures for asset retirement obligations. ExxonMobil's 2008 worldwide environmental expenditures for all such preventative and remediation steps, including ExxonMobil's share of equity company expenditures, were about $5.2 billion. The total cost for such activities is expected to remain in this range in 2009 and 2010 (with capital expenditures approximately 50 percent of the total).

**Environmental Liabilities**

The Corporation accrues environmental liabilities when it is probable that obligations have been incurred and the amounts can be reasonably estimated. This policy applies to assets or businesses currently owned or previously disposed. ExxonMobil has accrued liabilities for probable environmental remediation obligations at various sites, including multiparty sites where the U.S. Environmental Protection Agency has identified ExxonMobil as one of the potentially responsible parties. The involvement of other financially responsible companies at these multiparty sites could mitigate ExxonMobil's actual joint and several liability exposure. At present, no individual site is expected to have losses material to ExxonMobil's operations or financial condition. Consolidated company provisions made in 2008 for environmental liabilities were $507 million ($432 million in 2007) and the balance sheet reflects accumulated liabilities of $884 million as of December 31, 2008, and $916 million as of December 31, 2007.

### Asset Retirement Obligations

The fair values of asset retirement obligations are recorded as liabilities on a discounted basis when they are incurred, which is typically at the time assets are installed, with an offsetting amount booked as additions to property, plant and equipment ($195 million for 2008). Over time, the liabilities are accreted for the increase in their present value, with this effect included in expenses ($335 million in 2008). Consolidated company expenditures for asset retirement obligations in 2008 were $258 million and the ending balance of the obligations recorded on the balance sheet at December 31, 2008, totaled $5,352 million.

## MARKET RISKS, INFLATION AND OTHER UNCERTAINTIES

| Worldwide Average Realizations *(1)* | 2008 | 2007 | 2006 |
|---|---|---|---|
| Crude oil and NGL ($/barrel) | $89.32 | $66.02 | $58.34 |
| Natural gas ($/kcf) | 7.54 | 5.29 | 6.08 |

*(1) Consolidated subsidiaries.*

Crude oil, natural gas, petroleum product and chemical prices have fluctuated in response to changing market forces. The impacts of these price fluctuations on earnings from Upstream, Downstream and Chemical operations have varied. In the Upstream, a $1 per barrel change in the weighted-average realized price of oil would have approximately a $375 million annual after-tax effect on Upstream consolidated plus equity company earnings. Similarly, a $0.10 per kcf change in the worldwide average gas realization would have approximately a $175 million annual after-tax effect on Upstream consolidated plus equity company earnings. For any given period, the extent of actual benefit or detriment will be dependent on the price movements of individual types of crude oil, taxes and other government take impacts, price adjustment lags in long-term gas contracts, and crude and gas production volumes. Accordingly, changes in benchmark prices for crude oil and natural gas only provide broad indicators of changes in the earnings experienced in any particular period.

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In the very competitive downstream and chemical environments, earnings are primarily determined by margin capture rather than absolute price levels of products sold. Refining margins are a function of the difference between what a refiner pays for its raw materials (primarily crude oil) and the market prices for the range of products produced. These prices in turn depend on global and regional supply/demand balances, inventory levels, refinery operations, import/export balances and weather.

The global energy markets can give rise to extended periods in which market conditions are adverse to one or more of the Corporation's businesses. Such conditions, along with the capital-intensive nature of the industry and very long lead times associated with many of our projects, underscore the importance of maintaining a strong financial position. Management views the Corporation's financial strength, including the AAA and Aaa ratings of its long-term debt securities by Standard & Poor's and Moody's, as a competitive advantage.

In general, segment results are not dependent on the ability to sell and/or purchase products to/from other segments. Instead, where such sales take place, they are the result of efficiencies and competitive advantages of integrated refinery/chemical complexes. Additionally, intersegment sales are at market-based prices. The products bought and sold between segments can also be acquired in worldwide markets that have substantial liquidity, capacity and transportation capabilities. About 40 percent of the Corporation's intersegment sales are crude oil produced by the Upstream and sold to the Downstream. Other intersegment sales include those between refineries and chemical plants related to raw materials, feedstocks and finished products.

Although price levels of crude oil and natural gas may rise or fall significantly over the short to medium term due to political events, OPEC actions and other factors, industry economics over the long term will continue to be driven by market supply and demand. Accordingly, the Corporation tests the viability of all of its investments over a broad range of future prices. The Corporation's assessment is that its operations will continue to be successful in a variety of market conditions. This is the outcome of disciplined investment and asset management programs. Investment opportunities are tested against a variety of market conditions, including low-price scenarios.

The Corporation has an active asset management program in which underperforming assets are either improved to acceptable levels or considered for divestment. The asset management program includes a disciplined, regular review to ensure that all assets are contributing to the Corporation's strategic objectives. The result is an efficient capital base, and the Corporation has seldom had to write down the carrying value of assets, even during periods of low commodity prices.

**Risk Management**

The Corporation's size, strong capital structure, geographic diversity and the complementary nature of the Upstream, Downstream and Chemical businesses reduce the Corporation's enterprise-wide risk from changes in interest rates, currency rates and commodity prices. As a result, the Corporation makes limited use of derivative instruments to mitigate the impact of such changes. The Corporation does not engage in speculative derivative activities or derivative trading activities nor does it use derivatives with leveraged features. The Corporation maintains a system of controls that includes the authorization, reporting and monitoring of derivative activity. The Corporation's limited derivative activities pose no material credit or market risks to ExxonMobil's operations, financial condition or liquidity. Note 12 summarizes the fair value of derivatives outstanding at year end and the gains or losses that have been recognized in net income.

The Corporation is exposed to changes in interest rates, primarily on its short-term debt and the portion of long-term debt that carries floating interest rates. The impact of a 100-basis-point change in interest rates affecting the Corporation's debt would not be material to earnings, cash flow or fair value. The Corporation's cash balances exceeded total debt at year-end 2008 and 2007. During 2008, credit markets tightened and the global economy slowed. The Corporation is not dependent on the credit markets to fund current operations. However, some joint-venture partners are dependent on the credit markets, and their funding ability may impact the development pace of joint-venture projects.

The Corporation conducts business in many foreign currencies and is subject to exchange rate risk on cash flows related to sales, expenses, financing and investment transactions. The impacts of fluctuations in exchange rates on ExxonMobil's geographically and functionally diverse operations are varied and often offsetting in amount. The Corporation makes limited use of currency exchange contracts, commodity forwards, swaps and futures contracts to mitigate the impact of changes in currency values and commodity prices. Exposures related to the Corporation's limited use of the above contracts are not material.

**Inflation and Other Uncertainties**

The general rate of inflation in many major countries of operation increased in 2008 versus the relatively low rates in recent years, and the associated impact on non-energy costs has generally been mitigated by cost reductions from efficiency and productivity improvements. Increased global demand for certain services and materials has resulted in higher operating and capital costs in recent years. The Corporation works to counter upward pressure on costs through its economies of scale in global procurement and its efficient project management practices.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### RECENTLY ISSUED STATEMENTS OF FINANCIAL ACCOUNTING STANDARDS

#### Noncontrolling Interests in Consolidated Financial Statements

In December 2007, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 160 (FAS 160), "Noncontrolling Interests in Consolidated Financial Statements – an Amendment of ARB No. 51." FAS 160 changes the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity.

FAS 160 must be adopted by the Corporation no later than January 1, 2009. FAS 160 requires retrospective adoption of the presentation and disclosure requirements for existing minority interests. All other requirements of FAS 160 will be applied prospectively. The Corporation does not expect the adoption of FAS 160 to have a material impact on the Corporation's financial statements.

#### Revisions to the Earnings Per Share Calculation

In 2008, the FASB issued a Staff Position (FSP) on the Emerging Issues Task Force (EITF) Issue No. 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities." The FSP clarified that all unvested share-based payment awards that contain nonforfeitable rights to dividends should be included in the basic Earnings Per Share (EPS) calculation. The FSP will be effective for first quarter 2009 reporting. The implementation of this standard for the Corporation will result in changes in the calculation of basic and diluted EPS that are not expected to be material. Prior-year EPS numbers will be adjusted retrospectively on a consistent basis. This standard will not affect the consolidated financial position or results of operations.

### CRITICAL ACCOUNTING POLICIES

The Corporation's accounting and financial reporting fairly reflect its straightforward business model involving the extracting, refining and marketing of hydrocarbons and hydrocarbon-based products. The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles (GAAP) requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. The following summary provides further information about the critical accounting policies and the judgments that are made by the Corporation in the application of those policies.

#### Oil and Gas Reserves

Evaluations of oil and gas reserves are important to the effective management of Upstream assets. They are integral to making investment decisions about oil and gas properties such as whether development should proceed. Oil and gas reserve quantities are also used as the basis for calculating unit-of-production depreciation rates and for evaluating impairment. Oil and gas reserves include both proved and unproved reserves. Proved reserves are the estimated quantities of crude oil, natural gas and natural gas liquids that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions; i.e., prices and costs as of the date the estimate is made. Unproved reserves are those with less than reasonable certainty of recoverability and include probable reserves. Probable reserves are reserves that are more likely to be recovered than not.

The estimation of proved reserves, which is based on the requirement of reasonable certainty, is an ongoing process based on rigorous technical evaluations, commercial and market assessment, and detailed analysis of well information such as flow rates and reservoir pressure declines. The estimation of proved reserves is controlled by the Corporation through long-standing approval guidelines. Reserve changes are made within a well-established, disciplined process driven by senior level geoscience and engineering professionals (assisted by a central reserves group with significant technical experience), culminating in reviews with and approval by senior management. Notably, the Corporation does not use specific quantitative reserve targets to determine compensation.

Key features of the reserves estimation process include:

- rigorous peer-reviewed technical evaluations and analysis of well and field performance information (such as flow rates and reservoir pressure declines) and

- a requirement that management make significant funding commitments toward the development of the reserves prior to reporting as proved.

Although the Corporation is reasonably certain that proved reserves will be produced, the timing and amount recovered can be affected by a number of factors including completion of development projects, reservoir performance, regulatory approvals and significant changes in long-term oil and gas price levels.

Proved reserves can be further subdivided into developed and undeveloped reserves. The percentage of proved developed reserves has remained relatively stable over the past five years at over 60 percent of total proved reserves (including both consolidated and equity company reserves), indicating that proved reserves are consistently moved from undeveloped to developed status. Over time, these undeveloped reserves will be reclassified to the developed category as new wells are drilled, existing wells are recompleted and/or facilities to collect and deliver the production from existing and future wells are installed. Major development projects typically take two to four years from the time of recording proved reserves to the start of production from these reserves.

The year-end reserves volumes as well as the reserves change categories shown in the proved reserves tables are calculated using December 31 prices and costs. These reserves quantities are also used in calculating unit-of-production depreciation rates and in calculating the standardized measure of discounted net cash flow. We understand that the use of December 31 prices and costs is intended to provide a point in time measure to calculate reserves and to enhance comparability between companies. However, the use of year-end prices for reserves estimation introduces short-term price volatility into the process, which

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is inconsistent with the long-term nature of the upstream business, since annual adjustments are required based on prices occurring on a single day. As a result, the use of prices from a single date is not relevant to the investment decisions made by the Corporation.

Revisions can include upward or downward changes in previously estimated volumes of proved reserves for existing fields due to the evaluation or re-evaluation of (1) already available geologic, reservoir or production data, (2) new geologic, reservoir or production data or (3) changes in year-end prices and costs that are used in the determination of reserves. This category can also include significant changes in either development strategy or production equipment/facility capacity.

The Corporation uses the "successful efforts" method to account for its exploration and production activities. Under this method, costs are accumulated on a field-by-field basis with certain exploratory expenditures and exploratory dry holes being expensed as incurred. Costs of productive wells and development dry holes are capitalized and amortized on the unit-of-production method. The Corporation uses this accounting policy instead of the "full cost" method because it provides a more timely accounting of the success or failure of the Corporation's exploration and production activities. If the full cost method were used, all costs would be capitalized and depreciated on a country-by-country basis. The capitalized costs would be subject to an impairment test by country. The full cost method would tend to delay the expense recognition of unsuccessful projects.

**Impact of Oil and Gas Reserves on Depreciation.** The calculation of unit-of-production depreciation is a critical accounting estimate that measures the depreciation of upstream assets. It is the ratio of actual volumes produced to total proved developed reserves (those proved reserves recoverable through existing wells with existing equipment and operating methods), applied to the asset cost. The volumes produced and asset cost are known and, while proved developed reserves have a high probability of recoverability, they are based on estimates that are subject to some variability. While the revisions the Corporation has made in the past are an indicator of variability, they have had a very small impact on the unit-of-production rates because they have been small compared to the large reserves base.

**Impact of Oil and Gas Reserves and Prices on Testing for Impairment.** Proved oil and gas properties held and used by the Corporation are reviewed for impairment whenever events or circumstances indicate that the carrying amounts may not be recoverable. Assets are grouped at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets.

The Corporation estimates the future undiscounted cash flows of the affected properties to judge the recoverability of carrying amounts. In general, analyses are based on proved reserves. Where probable reserves exist, an appropriately risk-adjusted amount of these reserves may be included in the impairment evaluation. An asset would be impaired if the undiscounted cash flows were less than its carrying value. Impairments are measured by the amount by which the carrying value exceeds its fair value.

The Corporation performs asset valuation analyses on an ongoing basis as a part of its asset management program. These analyses monitor the performance of assets against corporate objectives. They also assist the Corporation in assessing whether the carrying amounts of any of its assets may not be recoverable. In addition to estimating oil and gas reserve volumes in conducting these analyses, it is also necessary to estimate future oil and gas prices. Trigger events for impairment evaluation include a significant decrease in current and projected prices or reserve volumes, an accumulation of project costs significantly in excess of the amount originally expected, and historical and current operating losses.

In general, the Corporation does not view temporarily low oil and gas prices as a trigger event for conducting the impairment tests. The markets for crude oil and natural gas have a history of significant price volatility. Although prices will occasionally drop significantly, industry prices over the long term will continue to be driven by market supply and demand. On the supply side, industry production from mature fields is declining, but this is being offset by production from new discoveries and field developments. OPEC production policies also have an impact on world oil supplies. The demand side is largely a function of global economic growth. The relative growth/decline in supply versus demand will determine industry prices over the long term and these cannot be accurately predicted. Accordingly, any impairment tests that the Corporation performs make use of the Corporation's price assumptions developed in the annual planning and budgeting process for the crude oil and natural gas markets, petroleum products and chemicals. These are the same price assumptions that are used for capital investment decisions. Volumes are based on individual field production profiles, which are updated annually. Cash flow estimates for impairment testing exclude the use of derivative instruments.

Supplemental information regarding oil and gas results of operations, capitalized costs and reserves is provided following the notes to consolidated financial statements. The standardized measure of discounted future cash flows is based on the year-end price applied for all future years, as required under Statement of Financial Accounting Standards No. 69 (FAS 69), "Disclosure about Oil and Gas Producing Activities." Future prices used for any impairment tests will vary from the one used in the FAS 69 disclosure and could be lower or higher for any given year.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Suspended Exploratory Well Costs

The Corporation carries as an asset exploratory well costs when the well has found a sufficient quantity of reserves to justify its completion as a producing well and where the Corporation is making sufficient progress assessing the reserves and the economic and operating viability of the project. Exploratory well costs not meeting these criteria are charged to expense. Assessing whether a project has made sufficient progress is a subjective area and requires careful consideration of the relevant facts and circumstances. The facts and circumstances that support continued capitalization of suspended wells as of year-end 2008 are disclosed in note 9 to the financial statements.

### Consolidations

The Consolidated Financial Statements include the accounts of those subsidiaries that the Corporation controls. They also include the Corporation's share of the undivided interest in certain upstream assets and liabilities. Amounts representing the Corporation's percentage interest in the underlying net assets of other significant affiliates that it does not control, but exercises significant influence, are included in "Investments, advances and long-term receivables"; the Corporation's share of the net income of these companies is included in the Consolidated Statement of Income caption "Income from equity affiliates." The accounting for these non-consolidated companies is referred to as the equity method of accounting.

Majority ownership is normally the indicator of control that is the basis on which subsidiaries are consolidated. However, certain factors may indicate that a majority-owned investment is not controlled and therefore should be accounted for using the equity method of accounting. These factors occur where the minority shareholders are granted by law or by contract substantive participating rights. These include the right to approve operating policies, expense budgets, financing and investment plans and management compensation and succession plans.

Additional disclosures of summary balance sheet and income information for those subsidiaries accounted for under the equity method of accounting can be found in note 6.

Investments in companies that are partially owned by the Corporation are integral to the Corporation's operations. In some cases they serve to balance worldwide risks and in others they provide the only available means of entry into a particular market or area of interest. The other parties who also have an equity interest in these companies are either independent third parties or host governments that share in the business results according to their percentage ownership. The Corporation does not invest in these companies in order to remove liabilities from its balance sheet. In fact, the Corporation has long been on record supporting an alternative accounting method that would require each investor to consolidate its percentage share of all assets and liabilities in these partially owned companies rather than only its percentage in the net equity. This method of accounting for investments in partially owned companies is not permitted by GAAP except where the investments are in the direct ownership of a share of upstream assets and liabilities. However, for purposes of calculating return on average capital employed, which is not covered by GAAP standards, the Corporation includes its share of debt of these partially owned companies in the determination of average capital employed.

### Pension Benefits

The Corporation and its affiliates sponsor approximately 100 defined benefit (pension) plans in about 50 countries. The funding arrangement for each plan depends on the prevailing practices and regulations of the countries where the Corporation operates. Pension and Other Postretirement Benefits (note 16) provides details on pension obligations, fund assets and pension expense.

Some of these plans (primarily non-U.S.) provide pension benefits that are paid directly by their sponsoring affiliates out of corporate cash flow rather than a separate pension fund. Book reserves are established for these plans because tax conventions and regulatory practices do not encourage advance funding. The portion of the pension cost attributable to employee service is expensed as services are rendered. The portion attributable to the increase in pension obligations due to the passage of time is expensed over the term of the obligations, which ends when all benefits are paid. The primary difference in pension expense for unfunded versus funded plans is that pension expense for funded plans also includes a credit for the expected long-term return on fund assets.

For funded plans, including those in the United States, pension obligations are financed in advance through segregated assets or insurance arrangements. These plans are managed in compliance with the requirements of governmental authorities and meet or exceed required funding levels as measured by relevant actuarial and government standards at the mandated measurement dates. In determining liabilities and required contributions, these standards often require approaches and assumptions that differ from those used for accounting purposes.

The Corporation will continue to make contributions to these funded plans as necessary. All defined-benefit pension obligations, regardless of the funding status of the underlying plans, are fully supported by the financial strength of the Corporation or the respective sponsoring affiliate.

Pension accounting requires explicit assumptions regarding, among others, the long-term expected earnings rate on fund assets, the discount rate for the benefit obligations and the long-term rate for future salary increases. Pension assumptions are reviewed annually by outside actuaries and senior management. These assumptions are adjusted as appropriate to reflect changes in market rates and outlook. The long-term expected earnings rate on U.S. pension plan assets in 2008 was 9.0 percent. The 10-year and 20-year actual returns on U.S. pension plan assets are 5 percent and 9 percent, respectively. The Corporation establishes the long-term expected rate of return by developing a forward-looking, long-term return assumption for each pension fund asset class, taking into account factors such as the expected real return

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for the specific asset class and inflation. A single, long-term rate of return is then calculated as the weighted average of the target asset allocation and the long-term return assumption for each asset class. A worldwide reduction of 0.5 percent in the long-term rate of return on assets would increase annual pension expense by approximately $90 million before tax.

Differences between actual returns on fund assets and the long-term expected return are not recognized in pension expense in the year that the difference occurs. Such differences are deferred, along with other actuarial gains and losses, and are amortized into pension expense over the expected remaining service life of employees.

**Litigation Contingencies**

A variety of claims have been made against the Corporation and certain of its consolidated subsidiaries in a number of pending lawsuits. Management has regular litigation reviews, including updates from corporate and outside counsel, to assess the need for accounting recognition or disclosure of these contingencies. The status of significant claims is summarized in note 15.

GAAP requires that liabilities for contingencies be recorded when it is probable that a liability has been incurred by the date of the balance sheet and that the amount can be reasonably estimated. These amounts are not reduced by amounts that may be recovered under insurance or claims against third parties, but undiscounted receivables from insurers or other third parties may be accrued separately. The Corporation revises such accruals in light of new information. For contingencies where an unfavorable outcome is reasonably possible and which are significant, the Corporation discloses the nature of the contingency and, where feasible, an estimate of the possible loss.

Significant management judgment is required related to contingent liabilities and the outcome of litigation because both are difficult to predict. However, the Corporation has been successful in defending litigation in the past. Payments have not had a materially adverse effect on operations or financial condition. In the Corporation's experience, large claims often do not result in large awards. Large awards are often reversed or substantially reduced as a result of appeal or settlement.

**Tax Contingencies**

The Corporation is subject to income taxation in many jurisdictions around the world. Significant management judgment is required in the accounting for income tax contingencies and tax disputes because the outcomes are often difficult to predict.

GAAP requires recognition and measurement of uncertain tax positions that the Corporation has taken or expects to take in its income tax returns. The benefit of an uncertain tax position can only be recognized in the financial statements if management concludes that it is more likely than not that the position will be sustained with the tax authorities. For a position that is likely to be sustained, the benefit recognized in the financial statements is measured at the largest amount that is greater than 50 percent likely of being realized. A reserve is established for the difference between a position taken in an income tax return and the amount recognized in the financial statements. The Corporation's unrecognized tax benefits and a description of open tax years are summarized in note 18.

**Foreign Currency Translation**

The method of translating the foreign currency financial statements of the Corporation's international subsidiaries into U.S. dollars is prescribed by GAAP. Under these principles, it is necessary to select the functional currency of these subsidiaries. The functional currency is the currency of the primary economic environment in which the subsidiary operates. Management selects the functional currency after evaluating this economic environment. Downstream and Chemical operations use the local currency, except in countries with a history of high inflation (primarily in Latin America) and Singapore, which uses the U.S. dollar because it predominantly sells into the U.S. dollar export market. Upstream operations also use the local currency as the functional currency, except where crude and natural gas production is predominantly sold in the export market in U.S. dollars. Operations using the U.S. dollar as their functional currency are primarily in Asia, West Africa, Russia and the Middle East.

Factors considered by management when determining the functional currency for a subsidiary include: the currency used for cash flows related to individual assets and liabilities; the responsiveness of sales prices to changes in exchange rates; the history of inflation in the country; whether sales are into local markets or exported; the currency used to acquire raw materials, labor, services and supplies; sources of financing; and significance of intercompany transactions.

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## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management, including the Corporation's chief executive officer, principal financial officer, and principal accounting officer, is responsible for establishing and maintaining adequate internal control over the Corporation's financial reporting. Management conducted an evaluation of the effectiveness of internal control over financial reporting based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that Exxon Mobil Corporation's internal control over financial reporting was effective as of December 31, 2008.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, audited the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2008, as stated in their report included in the Financial Section of this report.

| | | |
|---|---|---|
| Rex W. Tillerson<br>Chief Executive Officer | Donald D. Humphreys<br>Sr. Vice President and Treasurer<br>(Principal Financial Officer) | Patrick T. Mulva<br>Vice President and Controller<br>(Principal Accounting Officer) |

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

PRICEWATERHOUSECOOPERS

To the Shareholders of Exxon Mobil Corporation:

In our opinion, the consolidated financial statements listed under Item 8 of the Form 10-K present fairly, in all material respects, the financial position of Exxon Mobil Corporation and its subsidiaries at December 31, 2008, and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Corporation's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Corporation's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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As discussed in Note 18 to the consolidated financial statements, the Corporation changed its method of accounting for uncertainty in income taxes in 2007.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP

Dallas, Texas
February 27, 2009

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## CONSOLIDATED STATEMENT OF INCOME

| | Note Reference Number | 2008 | 2007 | 2006 |
|---|---|---|---|---|
| | | | *(millions of dollars)* | |
| Revenues and other income | | | | |
| Sales and other operating revenue *(1)* | | $459,579 | $390,328 | $365,467 |
| Income from equity affiliates | 6 | 11,081 | 8,901 | 6,985 |
| Other income *(2)* | | 6,699 | 5,323 | 5,183 |
| Total revenues and other income | | $477,359 | $404,552 | $377,635 |
| Costs and other deductions | | | | |
| Crude oil and product purchases | | $249,454 | $199,498 | $182,546 |
| Production and manufacturing expenses | | 37,905 | 31,885 | 29,528 |
| Selling, general and administrative expenses | | 15,873 | 14,890 | 14,273 |
| Depreciation and depletion | | 12,379 | 12,250 | 11,416 |
| Exploration expenses, including dry holes | | 1,451 | 1,469 | 1,181 |
| Interest expense | | 673 | 400 | 654 |
| Sales-based taxes *(1)* | 18 | 34,508 | 31,728 | 30,381 |
| Other taxes and duties | 18 | 41,719 | 40,953 | 39,203 |
| Income applicable to minority interests | | 1,647 | 1,005 | 1,051 |
| Total costs and other deductions | | $395,609 | $334,078 | $310,233 |
| Income before income taxes | | $ 81,750 | $ 70,474 | $ 67,402 |
| Income taxes | 18 | 36,530 | 29,864 | 27,902 |
| Net income | | $ 45,220 | $ 40,610 | $ 39,500 |
| Net income per common share (dollars) | 11 | $ 8.78 | $ 7.36 | $ 6.68 |
| Net income per common share – assuming dilution (dollars) | 11 | $ 8.69 | $ 7.28 | $ 6.62 |

*(1) Sales and other operating revenue includes sales-based taxes of $34,508 million for 2008, $31,728 million for 2007 and $30,381 million for 2006.*

*(2) Other income for 2008 includes a $62 million gain from the sale of a non-U.S. investment and a related $143 million foreign exchange loss.*

*The information in the Notes to Consolidated Financial Statements is an integral part of these statements.*

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## CONSOLIDATED BALANCE SHEET

| | Note Reference Number | Dec. 31 2008 | Dec. 31 2007 |
|---|---|---|---|
| | | *(millions of dollars)* | |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | | $ 31,437 | $ 33,981 |
| Marketable securities | | 570 | 519 |
| Notes and accounts receivable, less estimated doubtful amounts | 5 | 24,702 | 36,450 |
| Inventories | | | |
| Crude oil, products and merchandise | 3 | 9,331 | 8,863 |
| Materials and supplies | | 2,315 | 2,226 |
| Other current assets | | 3,911 | 3,924 |
| Total current assets | | $ 72,266 | $ 85,963 |
| Investments, advances and long-term receivables | 7 | 28,556 | 28,194 |
| Property, plant and equipment, at cost, less accumulated depreciation and depletion | 8 | 121,346 | 120,869 |
| Other assets, including intangibles, net | | 5,884 | 7,056 |
| Total assets | | $ 228,052 | $ 242,082 |
| Liabilities | | | |
| Current liabilities | | | |
| Notes and loans payable | 5 | $ 2,400 | $ 2,383 |
| Accounts payable and accrued liabilities | 5 | 36,643 | 45,275 |
| Income taxes payable | | 10,057 | 10,654 |
| Total current liabilities | | $ 49,100 | $ 58,312 |
| Long-term debt | 13 | 7,025 | 7,183 |
| Postretirement benefits reserves | 16 | 20,729 | 13,278 |
| Deferred income tax liabilities | 18 | 19,726 | 22,899 |
| Other long-term obligations | | 13,949 | 14,366 |
| Equity of minority interests | | 4,558 | 4,282 |
| Total liabilities | | $ 115,087 | $ 120,320 |
| Commitments and contingencies | 15 | | |
| Shareholders' equity | | | |
| Common stock without par value (9,000 million shares authorized, 8,019 million shares issued) | | $ 5,314 | $ 4,933 |
| Earnings reinvested | | 265,680 | 228,518 |
| Accumulated other comprehensive income | | | |
| Cumulative foreign exchange translation adjustment | | 1,146 | 7,972 |
| Postretirement benefits reserves adjustment | | (11,077) | (5,983) |
| Common stock held in treasury (3,043 million shares in 2008 and 2,637 million shares in 2007) | | (148,098) | (113,678) |
| Total shareholders' equity | | $ 112,965 | $ 121,762 |
| Total liabilities and shareholders' equity | | $ 228,052 | $ 242,082 |

*The information in the Notes to Consolidated Financial Statements is an integral part of these statements.*

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## CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

| | Note Reference Number | 2008 Shareholders' Equity | 2008 Comprehensive Income | 2007 Shareholders' Equity | 2007 Comprehensive Income | 2006 Shareholders' Equity | 2006 Comprehensive Income (1) |
|---|---|---|---|---|---|---|---|
| | | | | (millions of dollars) | | | |
| Common stock | | | | | | | |
| At beginning of year | | $ 4,933 | | $ 4,786 | | $ 4,477 | |
| Restricted stock amortization | | 618 | | 531 | | 480 | |
| Tax benefits related to stock-based awards | | 315 | | 113 | | 169 | |
| Cumulative effect of accounting change | 18 | | | (55) | | | |
| Other | | (552) | | (442) | | (340) | |
| At end of year | | $ 5,314 | | $ 4,933 | | $ 4,786 | |
| Earnings reinvested | | | | | | | |
| At beginning of year | | 228,518 | | 195,207 | | 163,335 | |
| Net income for the year | | 45,220 | $ 45,220 | 40,610 | $ 40,610 | 39,500 | $ 39,500 |
| Cumulative effect of accounting change | 18 | | | 322 | | | |
| Dividends – common shares | | (8,058) | | (7,621) | | (7,628) | |
| At end of year | | $ 265,680 | | $ 228,518 | | $ 195,207 | |
| Accumulated other comprehensive income | | | | | | | |
| At beginning of year | | 1,989 | | (2,762) | | (1,279) | |
| Foreign exchange translation adjustment | | (6,964) | (6,964) | 4,239 | 4,239 | 2,754 | 2,754 |
| Adjustment for foreign exchange translation loss included in net income | | 138 | 138 | | | | |
| Postretirement benefits reserves adjustment | 16 | (5,853) | (5,853) | (326) | (326) | (6,495) | |
| Amortization of postretirement benefits reserves adjustment included in net periodic benefit costs | 16 | 759 | 759 | 838 | 838 | | |
| Minimum pension liability adjustment | | | | | | 2,258 | 749 |
| At end of year | | $ (9,931) | | $ 1,989 | | $ (2,762) | |
| Total | | | $ 33,300 | | $ 45,361 | | $ 43,003 |
| Common stock held in treasury | | | | | | | |
| At beginning of year | | (113,678) | | (83,387) | | (55,347) | |
| Acquisitions, at cost | | (35,734) | | (31,822) | | (29,558) | |
| Dispositions | | 1,314 | | 1,531 | | 1,518 | |
| At end of year | | $ (148,098) | | $ (113,678) | | $ (83,387) | |
| Shareholders' equity at end of year | | $ 112,965 | | $ 121,762 | | $ 113,844 | |

| Share Activity | | | |
|---|---|---|---|
| | 2008 | 2007 | 2006 |
| | | (millions of shares) | |

| | | | |
|---|---|---|---|
| Common stock | | | |
| Issued | | | |
| At beginning of year | 8,019 | 8,019 | 8,019 |
| Issued | | | |
| At end of year | 8,019 | 8,019 | 8,019 |
| Held in treasury | | | |
| At beginning of year | (2,637) | (2,290) | (1,886) |
| Acquisitions | (434) | (386) | (451) |
| Dispositions | 28 | 39 | 47 |
| At end of year | (3,043) | (2,637) | (2,290) |
| Common shares outstanding at end of year | 4,976 | 5,382 | 5,729 |

(1) *Includes pre-FAS 158 adoption change in minimum pension liability.*

*The information in the Notes to Consolidated Financial Statements is an integral part of these statements.*

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## CONSOLIDATED STATEMENT OF CASH FLOWS

| | Note Reference Number | 2008 | 2007 | 2006 |
|---|---|---|---|---|
| | | | (millions of dollars) | |
| Cash flows from operating activities | | | | |
| Net income | | | | |
| Accruing to ExxonMobil shareholders | | $ 45,220 | $ 40,610 | $ 39,500 |
| Accruing to minority interests | | 1,647 | 1,005 | 1,051 |
| Adjustments for noncash transactions | | | | |
| Depreciation and depletion | | 12,379 | 12,250 | 11,416 |
| Deferred income tax charges/(credits) | | 1,399 | 124 | 1,717 |
| Postretirement benefits expense in excess of/(less than) payments | | 57 | (1,314) | (1,787) |
| Other long-term obligation provisions in excess of/(less than) payments | | (63) | 1,065 | (666) |
| Dividends received greater than/(less than) equity in current earnings of equity companies | | 921 | (714) | (579) |
| Changes in operational working capital, excluding cash and debt | | | | |
| Reduction/(increase) - Notes and accounts receivable | | 8,641 | (5,441) | (181) |
| - Inventories | | (1,285) | 72 | (1,057) |
| - Other current assets | | (509) | 280 | (385) |
| Increase/(reduction) - Accounts and other payables | | (5,415) | 6,228 | 1,160 |
| Net (gain) on asset sales | 4 | (3,757) | (2,217) | (1,531) |
| All other items - net | | 490 | 54 | 628 |
| Net cash provided by operating activities | | $ 59,725 | $ 52,002 | $ 49,286 |
| Cash flows from investing activities | | | | |
| Additions to property, plant and equipment | | $(19,318) | $(15,387) | $(15,462) |
| Sales of subsidiaries, investments and property, plant and equipment | 4 | 5,985 | 4,204 | 3,080 |
| Decrease in restricted cash and cash equivalents | 4 | — | 4,604 | — |
| Additional investments and advances | | (2,495) | (3,038) | (2,604) |
| Collection of advances | | 574 | 391 | 756 |
| Additions to marketable securities | | (2,113) | (646) | — |
| Sales of marketable securities | | 1,868 | 144 | — |
| Net cash used in investing activities | | $(15,499) | $ (9,728) | $(14,230) |
| Cash flows from financing activities | | | | |
| Additions to long-term debt | | $ 79 | $ 592 | $ 318 |
| Reductions in long-term debt | | (192) | (209) | (33) |
| Additions to short-term debt | | 1,067 | 1,211 | 334 |
| Reductions in short-term debt | | (1,624) | (809) | (451) |
| Additions/(reductions) in debt with three months or less maturity | | 143 | (187) | (95) |
| Cash dividends to ExxonMobil shareholders | | (8,058) | (7,621) | (7,628) |
| Cash dividends to minority interests | | (375) | (289) | (239) |
| Changes in minority interests and sales/(purchases) of affiliate stock | | (419) | (659) | (493) |
| Tax benefits related to stock-based awards | | 333 | 369 | 462 |
| Common stock acquired | | (35,734) | (31,822) | (29,558) |
| Common stock sold | | 753 | 1,079 | 1,173 |
| Net cash used in financing activities | | $(44,027) | $(38,345) | $(36,210) |

| | | | |
|---|---|---|---|
| Effects of exchange rate changes on cash | $ (2,743) | $ 1,808 | $ 727 |
| Increase/(decrease) in cash and cash equivalents | $ (2,544) | $ 5,737 | $ (427) |
| Cash and cash equivalents at beginning of year | 33,981 | 28,244 | 28,671 |
| Cash and cash equivalents at end of year | $ 31,437 | $ 33,981 | $ 28,244 |

*The information in the Notes to Consolidated Financial Statements is an integral part of these statements.*

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements and the supporting and supplemental material are the responsibility of the management of Exxon Mobil Corporation.

The Corporation's principal business is energy, involving the worldwide exploration, production, transportation and sale of crude oil and natural gas (Upstream) and the manufacture, transportation and sale of petroleum products (Downstream). The Corporation is also a major worldwide manufacturer and marketer of petrochemicals (Chemical) and participates in electric power generation (Upstream).

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles (GAAP) requires management to make estimates that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates. Prior years' data has been reclassified in certain cases to conform to the 2008 presentation basis.

### 1. Summary of Accounting Policies

**Principles of Consolidation.** The Consolidated Financial Statements include the accounts of those subsidiaries owned directly or indirectly with more than 50 percent of the voting rights held by the Corporation and for which other shareholders do not possess the right to participate in significant management decisions. They also include the Corporation's share of the undivided interest in certain upstream assets and liabilities.

Amounts representing the Corporation's percentage interest in the underlying net assets of other subsidiaries and less-than-majority-owned companies in which a significant ownership percentage interest is held are included in "Investments, advances and long-term receivables"; the Corporation's share of the net income of these companies is included in the Consolidated Statement of Income caption "Income from equity affiliates." The Corporation's share of the cumulative foreign exchange translation adjustment for equity method investments is reported in the Consolidated Statement of Shareholders' Equity. Evidence of loss in value that might indicate impairment of investments in companies accounted for on the equity method is assessed to determine if such evidence represents a loss in value of the Corporation's investment that is other than temporary. Examples of key indicators include a history of operating losses, a negative earnings and cash flow outlook, significant downward revisions to oil and gas reserves, and the financial condition and prospects for the investee's business segment or geographic region. If evidence of an other than temporary loss in fair value below carrying amount is determined, an impairment is recognized. In the absence of market prices for the investment, discounted cash flows are used to assess fair value.

**Revenue Recognition.** The Corporation generally sells crude oil, natural gas and petroleum and chemical products under short-term agreements at prevailing market prices. In some cases (e.g., natural gas), products may be sold under long-term agreements, with periodic price adjustments. In all cases, revenues are recognized when the products are delivered, which occurs when the customer has taken title and has assumed the risks and rewards of ownership, prices are fixed or determinable and collectibility is reasonably assured.

Revenues from the production of natural gas properties in which the Corporation has an interest with other producers are recognized on the basis of the Corporation's net working interest. Differences between actual production and net working interest volumes are not significant.

Purchases and sales of inventory with the same counterparty that are entered into in contemplation of one another are combined and recorded as exchanges measured at the book value of the item sold.

**Sales-Based Taxes.** The Corporation reports sales, excise and value-added taxes on sales transactions on a gross basis in the Consolidated Statement of Income (included in both revenues and costs). This gross reporting basis is footnoted on the Consolidated Statement of Income.

**Derivative Instruments.** The Corporation makes limited use of derivative instruments. The Corporation does not engage in speculative derivative activities or derivative trading activities nor does it use derivatives with leveraged features. When the Corporation does enter into derivative transactions, it is to offset exposures associated with interest rates, foreign currency exchange rates and hydrocarbon prices that arise from existing assets, liabilities and transactions.

The gains and losses resulting from changes in the fair value of derivatives are recorded in income. In some cases, the